THE FOLLGARD GROUP INC.

1996 ANNUAL REPORT

DIRECTORS

Jason Deyholos *
Vice President Software and
Multimedia Development

Douglas G. Evans *
Vice President
Corporate Communications

John Follgard
Chairman of the Board &
Chief Executive Officer

Rosemary Kumlin
Chief Financial Officer

Michael Rogers
Executive Vice President

Troy Wood
Vice President, Systems Integration

*Member of the Audit Committee

CORPORATE OFFICERS

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Douglas G. Evans
Vice President
Corporate Communications

Troy Wood
Vice President, Systems Integration

Rosemary Kumlin
Chief Financial Officer

John Stein, Q.C.
Secretary

AUDITORS
KPMG
Calgary, Alberta

LEGAL ADVISORS
Parlee McLaws
Calgary, Alberta

TRANSFER AGENT
Montreal Trust
Calgary, Alberta

SHARE INFORMATION

Common shares trade on The Alberta Stock Exchange under the trading symbol "FGI"

CORPORATE OFFICES

The Follgard Group Inc.
6110 - 1 A Street S.W.
Calgary, Alberta T2H 0G3

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CORPORATE PROFILE

The Follgard Group Inc. is a publicly-traded advanced technology company listed on the Alberta Stock Exchange. The Follgard Group is actively involved in the development, marketing, sales and service of business computer software products with a particular specialization in point of sale support; the integration of business computer systems; the provision of a range of business communications and marketing services; interactive corporate, educational, training and entertainment multimedia products and commercial CD-ROM titles; and Internet services support for business.

The Company conducts its day to day business activities through three wholly-owned subsidiaries.

- D.G.S. Computers Inc.
- Follgard CD•Visions Inc.
- Evans Communications Inc.

While corporate and subsidiary head offices are based in Calgary, Alberta, Canada, the Company's clients are located and its business activities conducted across Canada and in the United States, as well as in selected offshore markets.

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REPORT TO THE SHAREHOLDERS

From its very beginnings, The Follgard Group has had a highly motivating vision regarding the opportunities for designing and developing high technology software products and for the market recognition such products would receive if they provided exceptional value. We believed then, and now, that the Company has within its ranks some truly outstanding creative and technical talent with the skills and know-how to produce products that reflect such value. We believe our unique point of sale software products greatly aid and enhance the retail business environment. Our commercial CD-ROM products offer each user comprehensive information and guidance that improves their knowledge and understanding of important principles.The print and multimedia products we deliver to our business clients make a real difference in relations with their customers and in many cases, to their bottom line.

Notwithstanding our skills and capabilities, it became evident to the Company's directors and management in the past year that some adjustments were required if the vision of the Company's true potential was to be achieved. Our examination showed that Company goals were too broadly focused and, because of that, projects were often underfunded. This, in turn, impacted staff, work, costs, revenues and profitability.

To remedy this, over the last several months, management and staff were restructured, overheads substantially reduced, the focus of business revised and narrowed to more profitable activities, important new business was obtained, debt issues were attacked and resolved, and new and important strategic corporate relationships were formed. As well, the Company undertook the sale of Special Warrants to generate much needed cash and reduce debt. The effect of some changes are only now being felt.

As a result, 1996 results from operations saw revenues decline to $1.8 million producing a net loss for the 1996 fiscal year of $2.7 million or 28¢ per share. This compares with revenues of $3.9 million and a net loss of $2.1 million or 34¢ per share in fiscal 1995.

The drop in revenue was in part due to the Company's decision to replace its low margin, high volume retail computer hardware reselling business with higher margin, value-added services for small, medium and large sized business systems clients, particularly clients requiring integrated systems and networking support and comprehensive computing solutions.

The sale of Special Warrants provided important cash for operations and support for further product research and development - a total of $2,097,274 was delivered. A Preliminary Prospectus was filed with the Alberta Securities Commission January 17, 1997 which when finalized will qualify the Special Warrants and permit the Company to distribute 2, 942,572 Common Shares and a like number of Common Share Purchase Warrants to the subscribers. Each Common Share Purchase Warrant entitles the holder to acquire one Common Share of the Company at a price of $0.75 until November 30, 1998.

SUBSIDIARY OPERATIONS

The Company's wholly-owned operating subsidiaries function in three distinct but synergistic areas of business. D.G.S. Computers Inc., develops and sells custom and point of sale computer software along with integrated business information systems, networking and systems service. D.G.S. has marketed its highly successful Pinnacle point of sale software since 1988. Major users of the software include Sony Canada at 86 sites across Canada, Visions Electronics at 21 sites across Western Canada and Future Shop at over 90 sites across Canada and in the United States. Growth in Pinnacle POS software sales has been steady.

Evans Communications Inc. acts as producer for sponsored corporate multimedia and CD-ROMs for education, entertainment and training, computer-based corporate presentations, designs and produces print and information materials for business communications, electronic and print graphic services, and marketing counsel.

During 1996, Evans was engaged by and entered into agreements with a number of business organizations to undertake a variety of marketing, advertising and communications projects. The largest of these made Evans co-publisher with a major U.S. publishing company based in St. Louis, Missouri who financed the production of a comprehensive commercial CD-ROM on herbal medicine. A production team from Follgard CD•Visions Inc. was engaged in July to undertake the design, programming and production of the CD-ROM. The BETA version of this exciting new electronic product titled "The Interactive Herbal", has been delivered and final packaging and marketing should begin shortly. Under the agreement, the U.S. publisher will bear all costs and responsibility for manufacturing, marketing, distributing and selling the CD-ROM. The Company receives a royalty on world-wide sales of the CD-ROM and derivative products.

Evans also undertakes multi-faceted communications programs for its clients. Work for one client, which is ongoing, involves the design and development of a wide range of marketing materials, product labels, advertising design and placement, and corporate identity, as well as marketing counsel.

Follgard CD•Visions Inc. develops and markets commercial CD•ROM titles for global sale, undertakes contract production of corporate multimedia and print products, and produces and markets other electronic and commercial products. During early 1996, CD•Visions completed production of its second commercial CD-ROM, an instructional golf title featuring U.S. Open Champions and other golf professionals. Due to name usage conflicts recently identified, the product has been renamed "Follgard's Lesson Tee" and will be available by the Spring of 1997.

In addition to CD• Visions' extensive work on The Interactive Herbal CD-ROM, this subsidiary has been involved during the year in the creation of corporate presentations for business organizations.

CHALLENGES AND OPPORTUNITIES

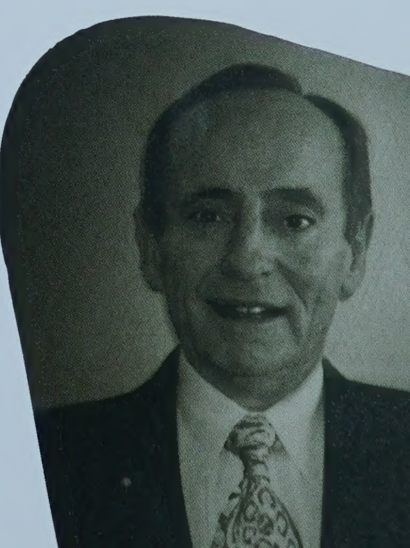
The challenges of building a high technology group and producing competitive technology products with limited funding have been clearly evident during this past fiscal year. Periodic opportunities have appeared during the year whereby the Company could have produced some low quality products for quick sale and short term gain. However, we have not followed such an approach and continue our goal of delivering products of extraordinary quality and high and lasting value for the purchaser.

To produce such extraordinary quality, you require matching talent. Our teams of CD-ROM designers and programmers and software development specialists are among the best in the industry. We have continuously explored for such talent and believe we now have a significant base of highly capable, creative and technical personnel.

We have also been actively pursuing new development opportunities to which our teams can apply their skills. For example, interest in applying our skills and creativity to Internet sites for business has continued to grow. We expect to form new business alliances that match with our corporate goals, objectives and capabilities that will permit us to expand the services we can extend to our customers.

Interestingly, we are in final negotiations on agreements for important long term projects beginning in 1997, that will permit the Company to demonstrate its advanced capabilities and true market potential.

Again, we wish to express our thanks and appreciation to our shareholders, customers and employees who share our vision and ambitions and have demonstrated patience and a desire to see the Company excel.



John Follgard

Chairman and Chief Executive Officer
February 17, 1997

MANAGEMENT'S DISCUSSION & ANALYSIS

GENERAL

The following discussion should be read in conjunction with the Consolidated Financial Statements and notes contained in this report.

Historical results of operations for 1995 and 1996 are not indicative of the Company's future operations. To date the Company has been in a product and business development stage and the results do not adequately reflect the benefits anticipated once produced products are effectively marketed. Additionally, the Company has been restructuring some of its operations to ensure its business is well focused on profitable operations, to reduce overhead costs and improve sales margins associated with various aspects of the business where strategies have been modified, and to become more efficient.

Since its inception, the Company has been engaged in developing and selling business software products and related services, with a major emphasis on point of sale software for the retail industry, and in the development of interactive entertainment and educational commercial CD-ROM titles for global distribution and sales. More recently, the Company has become involved in the design and production of interactive multimedia products for commercial and corporate clients and in the development of a range of business communications and information products and services.

Product development costs consist of all items directly related to the production of commercial CD-ROM titles and point of sale software. Administrative expenses consist of items relating to the operation of the Company and its subsidiaries which are generally charged as expenses when incurred. The Company records capital assets at cost and amortizes such assets using the straight-line method. The Company capitalizes product development costs net of any applicable tax credits until the first production run of saleable commercial CD-ROM products is achieved. As of September 30, 1996, $674,000 of product development costs relating to the production and start-up of commercial CD-ROM product, including Lost Treasures of the World and The Lesson Tee - Short Game, had been capitalized. Of these total product development costs, $287,000 has been amortized leaving $387,000 on the Company's books.

RESULTS OF OPERATIONS

Due to the close relationship between The Follgard Group Inc., D.G.S. Computers Inc. and Follgard CD•Visions Inc., the pooling of interest method was applied to reflect the combination of these companies in the Company's Major Transaction during the 1995 fiscal year ended September 30, 1995. Based upon the application of the pooling of interest method, the operations of the Company for that period represent twelve months of activity. Although the Company was incorporated on July 20, 1994 as a junior capital pool company and did not complete its Major Transaction until the 1995 fiscal year, the results of operations for the 1994 fiscal year disclosed in the Consolidated Financial Statements represent twelve months

of activity as the pooling of interest method has also been applied to the 1994 fiscal year. The results of operations for the 1995 fiscal year, however, include only one month of operation for Evans Communications Inc.

Revenues

For the year ended September 30, 1996, the Company had consolidated revenue of $1,820,000 from sales of computer software and related systems and support, corporate multimedia product development and business communication products and services. Revenues decreased by approximately $2 million from the $3.9 million achieved in the 1995 fiscal year. This was mainly due to the Company's decision to refocus its computer business away from low margin hardware sales. A related decline of $1.8 million in cost of sales also occurred as a result of the change in business strategy and from other efforts to reduce sales costs.

Margins on sales of point of sale software, corporate interactive multimedia contracts and business communications products and services are a substantial improvement from margins previously achieved on volume sales of computer hardware.

Offsetting improvements in margins and new business obtained were the substantial start-up and ongoing costs of the development of commercial CD-ROM titles. Much of these costs were for product research and experimental development, wages of technical and creative development teams, and advanced software and systems support. These and other related costs brought about an operating loss for the 1996 fiscal year of $2.7 million. Also contributing to the loss were a number of factors arising from the start-up of operations in the production of commercial CD-ROM products. The Company experienced high costs as it explored and tested a number of methods to create its commercial CD-ROM products.

High quality standards and the complexity of content of these commercial CD-ROM products resulted in unexpected extensions to production schedules creating delays in getting product developed. The Company has shifted its focus to creating commercial CD-ROM products where funding is mainly provided by third party investors and also through associations with organizations which have substantial distribution capabilities, marketing experience and funding capacity. The most recent example of this is reflected in the Company's agreement with Mosby-Year Book, Inc.

Costs associated with the commencement of operations in Evans Communications Inc. have been charged to income during the year. In accordance with generally accepted accounting principles in Canada, the costs associated with the start-up of operations of Follgard CD•Visions Inc. in fiscal 1994, 1995 and 1996 were capitalized at the time they were incurred and have been charged against the income of succeeding years.

As a result of the capital infusion during the year, long term debt was reduced by approximately $453,000 in 1996 fiscal year to $163,000.

CAPITAL EXPENDITURES

Capital expenditures were closely limited during the year and were mainly for leasehold improvements and for software creation and development. Product development costs amounted to $87,000. In addition, during the 1996 fiscal year, the Company restructured its relationship with its landlord, a corporate shareholder controlled by a former director and officer of the Company, by purchasing leasehold improvements of $279,860 with the issuance of 559,720 Common Shares thereby reducing annual overhead expenditures by over $100,000.

OPERATING LOSS CARRY FORWARD

The Company has accumulated non-capital losses for tax purposes of approximately $4,000,000 at September 30, 1996. These losses are the result of start-up operations. Future tax benefits are not recognized in the consolidated financial statement for the non-capital losses.

LIQUIDITY AND CAPITAL RESOURCES

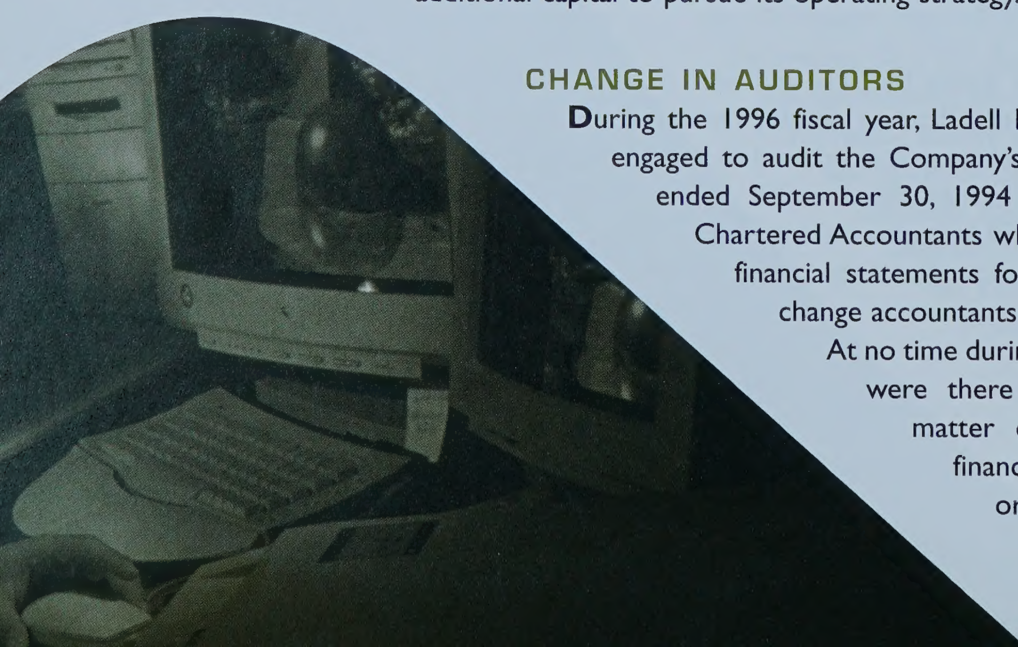
At September 30, 1996, the Company had a working capital deficiency of $1,627,000 compared to a working capital deficiency of $667,000 at September 30, 1995. The decrease in working capital is due primarily to high start-up and operating costs, and research and development costs. Decreases of $217,000 in accounts receivable and $179,000 in inventories between September 30, 1995 and September 30, 1996 reflect the decreased level of activity in the sales of computer hardware operations. Accounts receivable and inventories accounted for approximately 21% and 42%, respectively, of the Company's current assets at September 30, 1996. The Company used $2,342,000 of cash in operations before changes in non-cash working capital balances for the 1996 fiscal year, however, this was partially offset by an increase in non-cash working capital balances of $145,740.

Subsequent to July, 1996, the Company obtained debt financing of $70,000 provided by a Canadian chartered bank which is fully secured with a guaranteed investment certificate and bears interest at prime plus 0.5%. In early December, 1996, the Company's credit line was temporarily increased to $150,000 through a personal guarantee of a shareholder. The loan agreement contains certain covenants, including but not limited to, limitations on shareholder distributions and capital expenditures. The original loan was drawn at July, 1996, with no scheduled repayment.

The Company obtained $2,509,000 of cash from financing activities for the 1996 fiscal year primarily the result of the issuance of Special Warrants during the year. The Company had a shareholders' deficiency of $673,034 at September 30, 1996 and had a shareholders' deficiency of $67,325 at September 30, 1995, with the increase attributable to operating losses in excess of equity issuances.

The Company obtained $23,000 cash and $1,031,000 worth of services from the issuance of Common Shares during the 1996 fiscal year. The Company obtained $1,031,000 cash and $28,000 worth of services from the issuance of 1,425,365 Special Warrants during the 1996 fiscal year. As well, 91,916 Common Shares were issued on the exercise of directors', officers' and consultants' stock options representing $23,000 in capital, and 2,062,173 Common Shares were issued in exchange for the conversion of debt and the acquisition of leasehold improvements with an aggregate value of $1,031,000.

At September 30, 1996, the Company had a total of 11,845,589 Common Shares issued and outstanding, representing paid in capital of $2,913,000 and a total of 2,565,000 Series A First Preferred Shares issued and outstanding, representing paid in capital of nil. The Company has financed its growth primarily from the issuance of securities and to a lesser extent, from borrowing. At September 30, 1996, the Company had outstanding indebtedness of approximately $2,135,000. Management believes that the Company requires additional capital to pursue its operating strategy.



CHANGE IN AUDITORS

During the 1996 fiscal year, Ladell Perry, Chartered Accountants, who were engaged to audit the Company's financial statements for the fiscal years ended September 30, 1994 and 1995, were succeeded by KPMG, Chartered Accountants who were engaged to audit the Company's financial statements for the 1996 fiscal year. The decision to change accountants was approved by the Board of Directors. At no time during the period of Ladell Perry's engagement were there any reportable disagreements on any matter of accounting principles and practices, financial statement disclosure, or auditing scope or procedure.

SUBSEQUENT EVENTS

Subsequent to the 1996 fiscal year, the Company issued 1,371,003 Special Warrants for consideration of $1,028,000 comprised of cash of $297,000 and exchange of notes payable of $731,000.

AUDITOR'S REPORT TO THE SHAREHOLDERS

We have audited the consolidated balance sheet of The Follgard Group Inc. as at September 30, 1996 and the consolidated statements of operations and deficit and changes in financial position for the year then ended. These financial statements are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the company as at September 30, 1996 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles.

The financial statements as at September 30, 1995 and for the year then ended were reported on by other chartered accountants.

KPMG

Chartered Accountants
Calgary, Alberta

December 20, 1996, except for
Note 12 which is as at February 12, 1997

CONSOLIDATED BALANCE SHEET

At September 30		1996		1995
ASSETS				
Current assets:				
Cash	$	1,158	$	119,731
Short-term investments		70,000		–
Accounts receivable		81,277		298,028
Inventory		164,722		343,302
Prepaid expenses		74,461		47,846
		391,618		808,907
Fixed assets Note 2		631,924		544,531
Deferred costs Note 3		386,986		506,209
Other assets		51,022		75,125
	$	1,461,550	$	1,934,772
LIABILITIES AND SHAREHOLDERS' DEFICIENCY				
Current liabilities:				
Bank loan and overdraft	$	48,749	$	88,604
Accounts payable		1,073,758		1,296,734
Notes payable Note 5		848,700		–
Current portion of long-term debt		47,328		90,528
		2,018,535		1,475,866
Long term debt		116,049		526,231
Shareholders' deficiency:				
Paid in capital Note 7				
Common shares		2,913,450		1,859,247
Special warrants		1,059,024		–
Deficit		(4,645,508)		(1,926,572)
		(673,034)		(67,325)
Going concern assumption Note 1				
	$	1,461,550	$	1,934,772

See accompanying notes to consolidated financial statements.

On behalf of the Board:

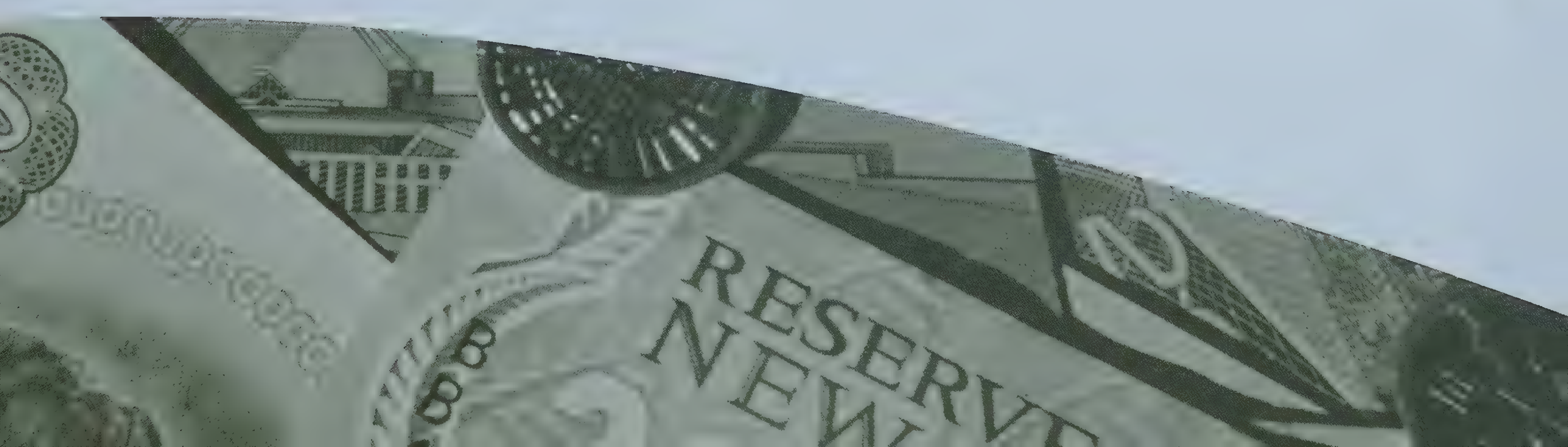
Director

Director

CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT

For the years ended September 30	1996	1995
Sales	$ 1,820,306	$ 3,876,099
Cost of sales	1,132,293	2,928,983
	688,013	947,116
Expenses:		
Wages and benefits	1,316,707	1,199,334
General and administrative	1,032,413	1,136,549
Selling	486,081	396,111
Depreciation and amortization	376,860	192,628
Interest on long-term debt	194,888	61,026
Loss on investment	–	32,436
	3,406,949	3,018,084
Net Loss	(2,718,936)	(2,070,968)
(Deficit) retained earnings, beginning of year	(1,926,572)	144,396
Deficit, end of year	$ (4,645,508)	$ (1,926,572)
Basic loss per share	$ (0.28)	$ (0.34)

See accompanying notes to consolidated financial statements



CONSOLIDATED STATEMENTS OF CHANGES IN FINANCIAL POSITION

For the years ended September 30	1996	1995
Cash provided by (used for):		
Operations:		
Net loss	$ (2,718,936)	$ (2,070,966)
Items not affecting cash:		
Depreciation and amortization	376,860	192,628
	(2,342,076)	(1,878,338)
Change in non-cash working capital	145,740	679,366
	(2,196,336)	(1,198,972)
Financing:		
Issue of special warrants	1,059,024	–
Issue of common shares	1,054,203	1,700,978
Issue of notes	1,310,200	–
Repayment of notes	(461,500)	–
Net (repayment) issue of long-term debt	(453,382)	204,595
Sale and leaseback of equipment	–	140,866
	2,508,545	2,046,439
Investments:		
Production costs deferred	(87,371)	(407,676)
Additions to fixed assets	(330,096)	(443,581)
Proceeds on disposition of fixed assets	72,437	–
Purchase of Evans Communications	–	(58,403)
Other	24,103	–
	(320,927)	(909,660)
Change in net cash position	(8,718)	(62,193)
Net cash position, beginning of year	31,127	93,320
Net cash position, end of year	$ 22,409	$ 31,127
Net cash position consists of:		
Cash	$ 1,158	$ 119,731
Bank loan and overdraft	(48,749)	(88,604)
Short-term investments	70,000	–
	$ 22,409	$ 31,127

See accompanying notes to consolidated financial statements

Year ended September 30, 1996

1. Summary of Significant Accounting Policies:

a) Going concern assumption:

At September 30, 1996 The Follgard Group Inc. (the "Company") has a working capital deficiency, a shareholders' deficiency and has incurred operating losses.

The consolidated financial statements of the Company have been prepared in accordance with accounting principles generally accepted in Canada, including the assumption that the Company will continue in operation as a going concern for the foreseeable future. Should this assumption prove invalid, the application of generally accepted accounting principles would be inappropriate.

The continuation of the Company is dependent upon its ability to generate additional amounts of capital to reduce its obligations and to generate sufficient income from operations to become profitable. Should these issues not be resolved the Company may be unable to continue as a going concern. Management plans to raise additional equity capital sufficient to reduce the Company's obligations to more sustainable levels and has taken steps to reorganize operations by reducing overhead and developing new sources of revenue. The full effect of these actions should be achieved by the end of the 1997 fiscal year.

Accordingly, following the presumption that management will succeed in implementing these plans these consolidated financial statements do not reflect any adjustments in the carrying value of the assets, liabilities and the classification thereof, nor the revenues and expenses that would be required if the going concern assumption were inappropriate.

The Company's technology business also includes developing and marketing interactive CD-ROM software. At this stage of the Company's development, a determination of commercial viability is not possible and accordingly, no determination has been made of the net recoverable amount of deferred development costs. All projects may require additional financing which will have to be obtained from shareholders or outside sources.

b) Basis of consolidation:

The Company was established as a public company under the Junior Capital Pool provisions of the Alberta Stock Exchange. The major transaction, the 100% acquisition of two related companies, D.G.S. Computers Inc. and Follgard CD•Visions Inc. has been treated as a pooling of interest (note 8(c)). The Company effectively commenced operations on October 1, 1994. On July 31, 1995, the Company acquired all the issued shares of Wise Software Solution Inc. with an exchange of shares of the Company. Wise Software Solution Inc. was subsequently placed in receivership and the investment written off. Accordingly, the accounts of Wise Software Solution Inc. have not been included in the consolidated financial statements. On August 31, 1995, the Company acquired all the issued shares of Evans Communications Inc. with an exchange of shares of the Company. This acquisition has been accounted for using the purchase method and has been included in the consolidated financial statements from August 30, 1995.

c) Fixed Assets:

Computer hardware, software and training equipment is stated at cost less depreciation using the straight line method over three years. Office equipment is stated at cost less depreciation using the declining balance method at a rate of 20%. Leasehold improvements are stated at cost less depreciation using the straight line method over the term of the lease.

Computer equipment leased to others is stated at cost less depreciation using the straight line method over five years.

d) Inventory:

Inventory is stated at the lower of cost and net realizable value.

e) Deferred Costs:

The production costs of CD-ROM development are deferred and amortized over a three year period commencing with the completion of the production. Other deferred costs relating to the start up of the CD-ROM production operations are being amortized over a three year period.

2. Fixed assets:

	Cost	Accumulated Depreciation	1996 Net Book Value	1995 Net Book Value
Computer software	$ 56,349	$ (54,263)	$ 2,086	$ 7,477
Computer hardware	250,413	(161,373)	89,040	202,762
Training equipment	36,530	(25,314)	11,216	21,210
Leasehold improvements	368,985	(35,801)	333,184	71,181
Office equipment	140,721	(46,771)	93,950	100,935
Computer equipment under capital lease	140,866	(38,418)	102,448	140,966
	$ 993,864	$ 361,940	$ 631,924	$ 544,531

3. Deferred costs:

	1996	1995
CD-ROM production costs	$ 550,605	$ 463,234
CD-ROM start up costs	123,781	123,781
	674,386	587,015
Less accumulated amortization	287,400	80,806
	$ 386,986	$ 506,209

4. Security agreement:

The Company has created a security interest in all property of D.G.S. Computers Inc. to a lender to secure an outstanding account payable. Payments against this account are in arrears and an extended payment schedule has been accepted by the lender. The amount outstanding at September 30, 1996 is approximately $45,772.

5. Notes payable:

The notes payable bear interest at rates ranging from 10% to 20% and have an original maturity of three months. The majority of the noteholders have agreed to defer repayment of the notes and accrued interest thereon in contemplation of an issue of special warrants of the Company. (See note 12).

6. Long term debt:

	1996	1995
Loans from a shareholder	$ 48,924	$ 350,313
Loans from an affiliated company	–	125,580
Capital lease obligations	114,453	140,866
	163,377	616,759
Less amounts due within one year	47,328	90,528
	$ 116,049	$ 526,231

7. Paid in capital:

(a) Authorized:

Unlimited number of voting common shares.

Unlimited number of first preferred shares, issuable in series. The directors have established Series A first preferred shares which are convertible into common shares on a one for one basis.

Unlimited number of non-voting second preferred shares, issuable in series.

(b) Issued:

	Number of Shares	Amount
Common shares:		
At September 30, 1994	1,500,000	$ 150,000
Issued for cash	2,562,500	1,568,750
Issued for brokerage services	50,000	10,000
Issued for employee stock options	169,000	33,800
Issued for shares of the following:		
D.G.S. Computers Inc.	2,700,000	167
Follgard CD•Visions Inc.	2,435,000	125
Wise Software Solutions Inc.	150,000	30,000
Evans Communications Inc.	125,000	66,405
At September 30, 1995	9,691,500	$ 1,859,247
Issued for employee stock options	91,916	23,116
Issued for debt and assets Note 7(f)	2,062,173	1,031,087
At September 30, 1996	11,845,589	$ 2,913,450

	Number of Shares	Amount
First Preferred Series A shares:		
At September 30, 1996 and 1995	2,565,000	$ –
Special warrants:		
At September 30, 1995	–	$ –
Issued for cash	1,294,333	970,750
Less issue costs	–	(10,000)
Issued for debt and assets Note 7(f)	131,032	98,274
At September 30, 1996	1,425,365	$ 1,059,024

(c) Escrow agreements:

6,747,500 common shares are subject to various escrow agreements which provide for releases from escrow over a period of time. One third of the escrowed shares were released in September 1996.

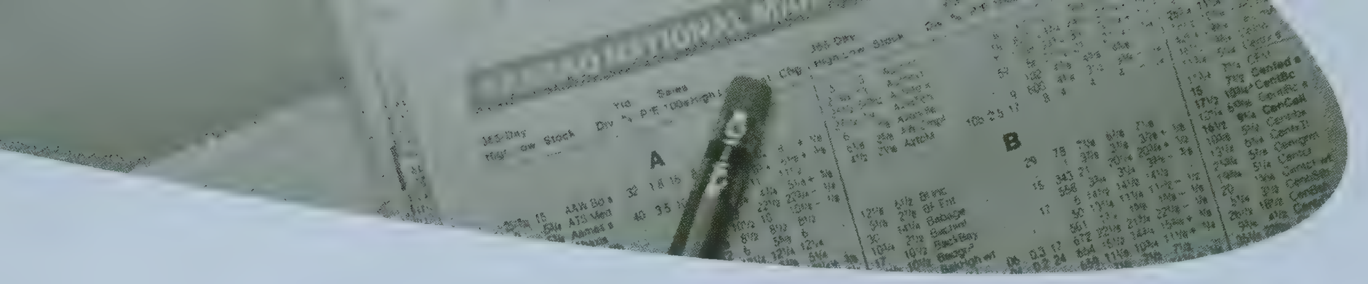
2,565,000 non-voting First Preferred Series A shares are subject to an escrow agreement and are convertible only upon the attainment of certain performance conditions by Follgard CD•Visions Inc. These shares are cancellable if the performance conditions are not met within a five year period.

(d) Special warrants:

The Special Warrants are convertible into common shares on a one for one basis and include an additional Share Purchase Warrant which can be converted into a common share until November 30, 1998 with the payment of $0.75 per share.

(e) Stock options:

At September 30, 1996, there were 700,000 options outstanding to acquire common shares of the Company. 630,000 of these options are exercisable at $.75 and 70,000 are exercisable at $.20.



(f) Issue of common shares for debt and assets:

Effective September 30, 1995 the Company entered into an agreement with a company controlled by a shareholder and former director and officer of the Company, whereby outstanding debts of $207,940 of the Company and leasehold improvements of $279,860 were purchased for consideration of 779,049 common shares and 131,032 share purchase warrants. The share purchase warrants are convertible into 131,032 shares and a warrant to purchase 131,932 common shares at $0.75 per share. Effective September 30, 1995, the Company entered into an agreement with an officer and director and companies controlled by that officer and director to issue 1,283,124 common shares in exchange for indeftedness of $641,562.

8. Acquisions:

(a) Evans Communications Inc.:

On August 31, 1995, the Company acquired all the issued shares of Evans Communications Inc., a corporate multimedia and communications company in an exchange of common shares.

Assets acquired at fair value:	
Fixed assets	$ 19,671
Other assets	75,125
	94,796
Working capital deficit	(28,391)
Fair value of consideration	$ 66,405

(b) Wise Software Solution Inc.

On July 31, 1995, the Company acquired all the issued shares of Wise Software Solution Inc., a computer hardware and software reseller in an exchange of common shares.

Assets acquired at fair value:	
Fixed assets	$ 28,157
Other assets	1,843
Fair value of consideration (150,000 common shares)	$ 30,000

In October 1995, Wise Software Solution Inc. was placed in receivership and substantially all of its assets disposed of to satisfy a secured creditor. Accordingly, the investment in Wise Software Solution Inc. has been written off at September 30, 1995 and has not been consolidated.

(c) Major transactions:

For combinations accounted for as a pooling of interests, net assets, at book value, brought into the combination were:

	The Follgard Group Inc.	**D.G.S. Computers Inc.**	**Follgard CD•Visions Inc.**
Assets	$ 370,000	$ 735,000	$ 740,000
Liabilities	446,000	837,000	617,000

9. Commitments and contingencies:

The Company is a defendant in certain legal claims under which if unsuccessfully defended, the Company would have liabilities of approximately $200,000 in excess of amounts accrued. The Company believes that it has not liability beyond amounts accrued.

The Company has entered into a consulting contract with a company controlled by an officer and director effective October 1, 1996 which expires November 1, 1999. Annual commitments under the contract are approximately $145,000.

10. Income taxes:

The Company and its subsidiaries have accumulated non-capital losses for income tax purposes of approximately $4,000,000, the benefit of which have not been recognized in the accounts and which do not expire before 2001.

11. Related party transactions:

The Company leases facilities from a company controlled by a former director and officer of the Company. Lease payments and payments of operating costs for the year ended September 30, 1996 aggregated approximately $295,000 (year ended September 30, 1995 - $153,000).

During the year, the Company paid consulting fees aggregating $58,100 to a company controlled by a former officer of the Company (year ended September 30, 1995 - $9,000). The Company also paid consulting fees aggregating $135,000 to a company controlled by an officer and director in the year ended September 30, 1995. In addition, the companies paid $3,300 as interest on loans from shareholders and an affiliated company (year ended September 30, 1995 - $14,500).

As at September 30, 1996, the financial statements include accounts payable of $109,000 (September 30, 1995 - $181,000) and accounts receivable of $1,100 (September 30, 1995 - $73,500) with respect to these related parties.

12. Subsequent events

(a) Subsequent to September 30, 1996 the Company issued 1,371,003 special warrants for consideration of $1,028,250 comprised of cash of $297,000 and exchange of notes payable of $731,250. Under the terms of the special warrants, warrant holders are entitled to receive 1.1 shares for each special warrant if the company does not receive receipt for a prospectus to qualify the shares for distribution within a specified time period. In this regard the Company expects to issue 146,204 additional common shares.

(b) The Company issued a preliminary prospectus dated January 17, 1997 relating to the issue of 2,942,572 common shares and 2,942,572 common share purchase warrants issuable upon exercise of 2,796,368 special warrants. The common share purchase warrants entitle the holder to acquire one common share for $0.75 until November 30, 1998.

(c) Subsequent to September 30, 1996, the Company entered into agreements with certain arms length parties to issue 163,333 common shares as settlement of liabilities aggregating $125,000.

DIRECTORS

Jason Deyholos *
Vice President Software and
Multimedia Development

Douglas G. Evans *
Vice President
Corporate Communications

John Follgard
Chairman of the Board &
Chief Executive Officer

Rosemary Kumlin
Chief Financial Officer

Michael Rogers
Executive Vice President

Troy Wood
Vice President, Systems Integration

*Member of the Audit Committee

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Douglas G. Evans
Vice President
Corporate Communications

Troy Wood
Vice President, Systems Integration

Rosemary Kumlin
Chief Financial Officer

John Stein, Q.C.
Secretary

AUDITORS
KPMG
Calgary, Alberta

LEGAL ADVISORS
Parlee McLaws
Calgary, Alberta

TRANSFER AGENT
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SHARE INFORMATION

Common shares trade on The Alberta Stock Exchange under the trading symbol "FGI"

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